WINTER 2015

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Retirement Report

CITY OF MESA

DEFERRED COMPENSATION PLAN

The Strong Dollar: Causes & Implications

The "strong dollar" has been a significant headline in the economic news lately, perhaps second only to the extraordinary decline in the price of oil. What is more, the dollar may keep getting stronger. According to economists and nearly all investment strategists, the dollar will continue to strengthen in 2015. But for many who are saving for retirement, the reasons behind, and implications of, the strong dollar warrant explanation.

Why is the dollar strong?

Describing a currency like the dollar as strong refers to its value compared to other currencies—its exchange rate. When the dollar strengthens relative to another currency, it means that one dollar can buy more units of the other currency. Conversely, it takes more of the other currency to purchase one dollar. Much like the prices of normal goods, the exchange rate for dollars is generally set by market forces. With approximately $1.9 trillion of currencies changing hands each day across the globe, the currency markets' size is enormous.

The dollar's strength is a consequence of the relative high aggregate level of demand for dollars relative to the aggregate supply. Billions of individual decisions by millions of market participants determine these aggregate levels. Global demand for dollars has surged in recent months as investors have made purchases that are paid for in dollars. The primary reason market participants all over the world demand dollars is that they want to purchase assets, goods, or services that are sold for dollars. Examples include Japan's central bank purchasing U.S. government securities, a Mexican company purchasing machinery from Caterpillar, and an African nation paying Goldman Sachs to issue its sovereign debt. For foreign companies, governments, and individuals to engage in these transactions, they must first exchange their local currencies for American dollars. Therefore, increased demand for these transactions spurs increased demand for dollars. In contrast, greater American demand for foreign goods, services, and assets increases the quantity of dollars supplied in exchange for foreign currencies.

Recently, one factor has played a particularly significant role in the dollar's strength: increased demand for American investments. As economic growth in the United States has continued to improve and conditions elsewhere have stagnated, many foreign investors have concluded that American investments are likely to outperform investments in other countries. As a result, their appetite for dollars they can use to purchase American assets has grown. For example, interest rates in the United States have remained modestly higher than those in many developed nations, driving foreign demand for American government bonds. As positive news about the American economy builds, especially declining unemployment, and risks in Europe and elsewhere persist, this trend will likely continue. Meanwhile, relatively attractive investment opportunities in the United States have also diminished American investors' appetite for foreign currencies to buy foreign assets. Together, these changes in global demand for assets have driven much of the dollar's appreciation.

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The Strong Dollar: Causes & Implications
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Other factors affect the value of the dollar, too. During periods that investors are risk averse, they tend to hold currencies with strong fundamentals in countries with stable governments. This preference for stability has helped the dollar relative to countries like Russia and Greece. In addition, Investors tend to demand currencies backed by central banks that try to hold down inflation.

What are the Implications?
For American investors, the strengthening dollar will have several positive results. First, the stronger dollar means imports from countries with relatively weak currencies are cheaper. As each dollar buys more of a foreign currency, the dollar-cost of foreign goods and services declines. In addition, the rate of inflation may fall. Given the Federal Reserve's focus on minimizing inflation, as the likelihood of inflation declines, so does the pressure on the Fed to raise interest rates to combat it. Finally, more investors may be attracted to American securities markets, lifting stock and bond prices.

However, a strong dollar's effects are not all positive. Most obviously, American exports suffer as the dollar strengthens because they become more expensive to those holding foreign currencies. In addition, as the cost of imports declines, it can put price pressure on American competitors. As a result, domestic producers' goods become relatively more expensive than imported items, and domestic producers lose power to raise prices. This can negatively impact the earnings of American companies, which in turn can cause those companies' share prices to decline. Moreover, American investors who hold foreign assets and then convert dividends, yields, or sale proceeds will see investment returns decline. That is because those currencies will buy fewer dollars than before.

Conclusion
Understanding why the dollar is strong and how it affects different investments can help retirement investors appreciate the resulting impact on their investments. Nonetheless, in light of the billions of decisions influencing exchange rates, attempting to improve performance by predicting short-term changes in those rates is extremely difficult, even for professional investors. Consequently, those investing for retirement would be well-advised to refrain from altering their portfolios to get ahead of the next exchange rate move. Moreover, the positive and negative effects of the strong dollar ripple through a well-diversified portfolio, benefiting certain components and hurting others. Appropriately diversified portfolios thus reduce the risk posed by exchange rate changes.

Whom do I call for help?

Investment Questions

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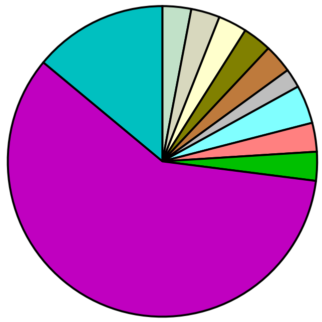
Mesa Conservative Portfolio 12/31/14

Who typically uses this portfolio?

Current Age:	over 60
Risk Level:	Low
Expected Return:	Low
<u>Time Horizon:</u>	
Years to Age 65:	under 5
Years to Age 85:	under 25
Expense Ratio (%)	0.72

Portfolio Allocation (%)



Fund	%
Aston:M&C Growth;N (MCGFX)	3.0
MainStay:Lg Cap Gr;I (MLAIX)	3.0
Dodge & Cox Stock (DODGX)	3.0
Allianz:GI NFJ DV;Inst (NFJEX)	3.0
Artisan:Mid Cap;Inv (ARTMX)	3.0
Cambiar Small Cap;Inst (CAMZX)	2.0
Dodge & Cox Intl Stock (DODFX)	4.0
Artisan:Internatl;Inv (ARTIX)	3.0
DFA Emg Mkts Core Eq;I (DFCEX)	3.0
PIMCO:Tot Rtn;Admn (PTRAX)	59.0
Mesa/Great West Custom Stable Value	14.0

Past Performance (%)*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Conservative Portfolio	1.14	3.95	3.95	6.70	6.13	5.48

Understanding Your Professionally-Managed Portfolios

Who typically uses this portfolio?

Current Age: The age (today) of an average investor with time horizon, risk level, and return expectations of the Conservative Portfolio.

Time Horizon: Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

Risk Level: The amount of expected risk in the Conservative Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Conservative Portfolio, and is calculated via a statistical process consistent with 95% probability.

Low: 0% to **-14%**

Expected Return: The level of expected investment return from the Conservative Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

Low: 5% to **7%**

Past Performance

Investment performance results shown above represent past performance and are not indicative of future results. Please read the information contained in the applicable fund prospectuses carefully before investing money.

How is the portfolio diversified?

The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

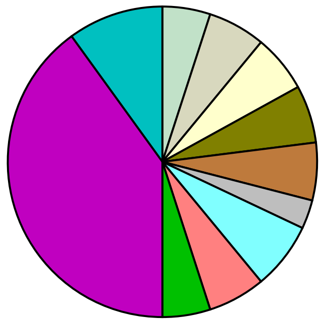
*Innovest relies on 3rd party data for these returns. Periods greater than one year are annualized.

Mesa Moderate Portfolio 12/31/14

Who typically uses this portfolio?

Current Age:	40 - 60
Risk Level:	Moderate
Expected Return:	Moderate
<u>Time Horizon:</u>	
Years to Age 65:	5 - 25
Years to Age 85:	25 - 45
Expense Ratio (%)	0.76

Portfolio Allocation (%)



Aston:M&C Growth;N (MCGFX)	5.0
MainStay:Lg Cap Gr;I (MLAIX)	6.0
Dodge & Cox Stock (DODGX)	6.0
Allianz:GI NFJ DV;Inst (NFJEX)	6.0
Artisan:Mid Cap;Inv (ARTMX)	6.0
Cambiar Small Cap;Inst (CAMZX)	3.0
Dodge & Cox Intl Stock (DODFX)	7.0
Artisan:Internatl;Inv (ARTIX)	6.0
DFA Emg Mkts Core Eq;I (DFCEX)	5.0
PIMCO:Tot Rtn;Admn (PTRAX)	40.0
Mesa/Great West Custom Stable Value	10.0

Past Performance (%)*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Moderate Portfolio	1.25	4.20	4.20	10.33	8.26	6.41

Understanding Your Professionally-Managed Portfolios

Who typically uses this portfolio?

Current Age: : The age (today) of an average investor with time horizon, risk level, and return expectation of the Moderate Portfolio.

Time Horizon: Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

Risk Level: The amount of expected risk in the Moderate Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Moderate Portfolio, and is calculated via a statistical process consistent with 95% probability.

Moderate: -14% to -20%

Expected Return: The level of expected investment return from the Moderate Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

Moderate: 6% to 8%

Past Performance

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How is the portfolio diversified?

The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

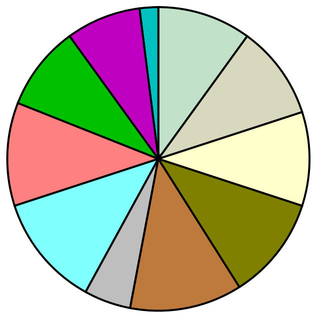
*Innovest relies on 3rd party data for these returns. Periods greater than one year are annualized.

Mesa Aggressive Portfolio 12/31/14

Who typically uses this portfolio?

Current Age:	30 - 50
Risk Level:	High
Expected Return:	High
Time Horizon:	
Years to Age 65:	15 - 35
Years to Age 85:	35 - 55
Expense Ratio (%)	0.85

Portfolio Allocation (%)



Fund	%
Aston:M&C Growth;N (MCGFX)	10.0
MainStay:Lg Cap Gr;I (MLAIX)	10.0
Dodge & Cox Stock (DODGX)	10.0
Allianz:GI NFJ DV;Inst (NFJEX)	11.0
Artisan:Mid Cap;Inv (ARTMX)	12.0
Cambiar Small Cap;Inst (CAMZX)	5.0
Dodge & Cox Intl Stock (DODFX)	12.0
Artisan:Internatl;Inv (ARTIX)	11.0
DFA Emg Mkts Core Eq;I (DFCEX)	9.0
PIMCO:Tot Rtn;Admn (PTRAX)	8.0
Mesa/Great West Custom Stable Value	2.0

Past Performance (%)*

	Last Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Mesa Aggressive Portfolio	1.44	4.68	4.68	15.67	11.20	7.23

Understanding Your Professionally-Managed Portfolios

Who typically uses this portfolio?

Current Age: : The age (today) of an average investor with time horizon, risk level, and return expectation of the Aggressive Portfolio.

Time Horizon: Indicates the number of years (time horizon) to the average retirement age of 65, when the investor will begin spending the money in their account, and the number of years to assumed life expectancy of age 85.

Risk Level: The amount of expected risk in the Aggressive Portfolio. Risk is measured by the potential loss over a 12-month period that an investor might expect in the Aggressive Portfolio, and is calculated via a statistical process consistent with 95% probability.

High: -20% to -26%

Expected Return: The level of expected investment return from the Aggressive Portfolio. The range of returns shown below indicates the potential gain that an investor might expect each year, on average, over a 5-year period. This is also referred to as the "mean" return, and is calculated using a statistical process to determine a range of probabilities.

High: 7% to 9%

Past Performance

Investment performance results shown above represent past performance and are not indicative of future results. Please read the information contained in the applicable fund prospectuses carefully before investing money.

How is the portfolio diversified?

The pie chart and accompanying data shown for each portfolio illustrates the percentage allocated to each fund.

*Innovest relies on 3rd party data for these returns. Periods greater than one year are annualized.

City of Mesa

Comparison of Plan Expenses for the City of Mesa 457 Retirement Plan

Plan Expenses - Expenses for your retirement plan include investment, record-keeping (accounting and reporting), customer service, participant education, trust and custody. The table below provides a comparison between annual plan expenses for the average 401(k) retirement plan (as a percentage of assets) and the actual expenses for the City of Mesa 457 Retirement Plan. Source: 401(k) Source Data.

Average 401(k) Plan Expenses	0.94%	City of Mesa 457 Plan Expense Estimate	0.53%

Your retirement plan offers many different mutual fund investment options that cover a broad range of risk and investment opportunites. Each fund charges fees for management and operating expenses. These fees are referred to as the expense ratio. This is the percentage of fund assets paid for operating expenses and management fees. The expense ratio typically includes the following types of fees: accounting, administrator, advisor, auditor, board of directors, custodial, distribution (12b-1), legal, organizational, professional, registration, shareholder reporting, sub-advisor, and transfer agency. The table below provides a comparison between the median category expense ratio and the actual expense ratio of funds offered through the City of Mesa 457 Retirement Plan. Source: Innovest Portfolio Solutions LLC.

City of Mesa 457 Plan Fund Name	Fund Objective/Category	Ticker	Category Median Expense Ratio	Category Annual Expense For Each $1,000	Mutual Fund Expense Ratio	Mutual Fund Annual Expense For Each $1,000
Fidelity Contrafund	Lg Cap Growth	FCNTX	1.33%	$ 13.30	0.66%	$ 6.60
Vanguard Institutional Index Instl	Lg Cap Broad	VINIX	1.14%	$ 11.40	0.04%	$ 0.40
Aston/Montag & Caldwell Growth	Lg Cap Growth	MCGFX	1.33%	$ 13.30	1.04%	$ 10.40
MainStay Large Cap Growth I	Lg Cap Growth	MLAIX	1.20%	$ 12.00	0.77%	$ 7.70
Dodge & Cox Stock	Lg Cap Value	DODGX	1.12%	$ 11.20	0.52%	$ 5.20
Allianz NFJ Dividend Value Instl	Lg Cap Value	NFJEX	1.12%	$ 11.20	0.70%	$ 7.00
Vanguard Mid Capitalization Index Admiral	Mid Cap Broad	VIMAX	1.21%	$ 12.10	0.09%	$ 0.90
Artisan Mid Cap Inv	Mid Cap Growth	ARTMX	1.41%	$ 14.10	1.22%	$ 12.20
JH Disciplined Mid Cap Value	Mid Cap Value	JVMIX	1.26%	$ 12.60	0.90%	$ 9.00
Vanguard Small Cap Index Admiral	Sm Cap Broad	VSMAX	1.21%	$ 12.10	0.09%	$ 0.90
Cambiar Small Cap	Sm Cap Value	CAMZX	1.35%	$ 13.50	1.06%	$ 10.60
Kalmar Growth-with-Value Small Cap	Sm Cap Growth	KGSCX	1.20%	$ 12.00	1.29%	$ 12.90
Artisan International Inv	International Lg Cap Growth	ARTIX	1.28%	$ 12.80	1.20%	$ 12.00
American Funds EuroPacific Gr R5	International Lg Cap Core	RERFX	1.31%	$ 13.10	0.54%	$ 5.40
Dodge & Cox International Stock	International Lg Cap Value	DODFX	1.25%	$ 12.50	0.64%	$ 6.40
Oppenheimer Global A	Intl Eq Non US	OPPAX	1.48%	$ 14.80	1.19%	$ 11.90
DFA Emerging Markets Core Equity	Emerging Markets	DFCEX	1.52%	$ 15.20	0.68%	$ 6.80
PIMCO Total Return Admin	Core Bond	PTRAX	0.92%	$ 9.20	0.72%	$ 7.20
Voya Global Real Estate A	Real Estate	IGLAX	1.45%	$ 14.50	1.31%	$ 13.10
JPMorgan High Yield Select	High Yield	OHYFX	1.11%	$ 11.10	0.81%	$ 8.10
Great West Fixed Portfolio	Fixed Income		0.50%	$ 5.00	0.47%	$ 4.70
T. Rowe Price Retirement 2010	Target Date	TRRAX	0.58%	$ 5.80	0.61%	$ 6.10
T. Rowe Price Retirement 2015	Target Date	TRRGX	0.88%	$ 8.80	0.65%	$ 6.50
T. Rowe Price Retirement 2020	Target Date	TRRBX	0.81%	$ 8.10	0.69%	$ 6.90
T. Rowe Price Retirement 2025	Target Date	TRRHX	0.88%	$ 8.80	0.72%	$ 7.20
T. Rowe Price Retirement 2030	Target Date	TRRCX	0.82%	$ 8.20	0.74%	$ 7.40
T. Rowe Price Retirement 2035	Target Date	TRRJX	0.91%	$ 9.10	0.76%	$ 7.60
T. Rowe Price Retirement 2040	Target Date	TRRDX	0.86%	$ 8.60	0.76%	$ 7.60
T. Rowe Price Retirement 2045	Target Date	TRRKX	0.93%	$ 9.30	0.76%	$ 7.60
T. Rowe Price Retirement 2050	Target Date	TRRMX	0.82%	$ 8.20	0.76%	$ 7.60
T. Rowe Price Retirement Income	Target Date	TRRIX	0.63%	$ 6.30	0.56%	$ 5.60